

KINGMAN AIRPORT AUTHORITY, INC.

ANNUAL FINANCIAL REPORT

FOR THE

FISCAL YEAR ENDED JUNE 30, 1998

FINANCIAL SECTION

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

The Board of Directors of the
Kingman Airport Authority, Inc.

We have audited the accompanying general-purpose financial statements of the Kingman Airport Authority, Inc. (Authority), as of and for the year ended June 30, 1998, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Kingman Airport Authority, Inc. as of June 30, 1998, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with generally accepted accounting principles.

Cronstrom & Trbovich, P.C.

Cronstrom & Trbovich, P.C.

August 28, 1998

General-Purpose Financial Statements

AS OF JUNE 30, 1998

	Proprietary Fund Type
	Enterprise
Assets	
Cash and investments	\$ 113,581
Accounts receivable	26,897
Intergovernmental receivable	49,504
Deposits	918
Fixed assets (net of accumulated depreciation)	5,784,568
Intangible assets (net of accumulated amortization)	<u>41,154</u>
Total Assets	\$ <u>6,016,622</u>
Liabilities and Fund Equity	
Liabilities	
Accounts payable	\$ 49,279
Intergovernmental payable	25,000
Capital leases payable	7,603
Notes payable	<u>27,000</u>
Total Liabilities	<u>108,882</u>
Fund Equity	
Contributed capital	6,129,768
Retained earnings	
Unreserved	<u>(222,028)</u>
Total Fund Equity	<u>5,907,740</u>
Total Liabilities and Fund Equity	\$ <u>6,016,622</u>

ALL PROPRIETARY FUND TYPES
YEAR ENDED JUNE 30, 1998

	Enterprise
Operating revenues	
Leases	\$ <u>321,415</u>
Total operating revenues	<u>321,415</u>
Operating expenses	
Personnel	242,176
Payroll taxes and benefits	68,468
Office expense	10,457
Professional services	27,354
Maintenance and repairs	15,031
Motor pool	7,513
Operation expense	111,436
Depreciation	290,824
Amortization	<u>4,116</u>
Total operating expenses	<u>777,375</u>
Operating income (loss)	<u>(455,960)</u>
Nonoperating revenues (expenses)	
Contributions and donations	83,435
Interest revenue	4,306
Application fees	3,250
Land sales	103,200
Miscellaneous revenues	3,194
Interest expense	<u>(2,131)</u>
Total nonoperating revenues (expenses)	<u>195,254</u>
Net income (loss)	(260,706)
Retained earnings, beginning of year	<u>38,678</u>
Retained earnings, end of year	\$ <u>(222,028)</u>

BUDGET AND ACTUAL - (BUDGETARY BASIS)
ALL PROPRIETARY FUND TYPES
YEAR ENDED JUNE 30, 1998

	Enterprise		Variance Favorable (Unfavorable)
	Budget	Actual	
Revenues			
Leases	\$ 309,701	\$ 321,415	\$ 11,714
Intergovernmental	1,345,725	71,947	(1,273,778)
Contributions and donations	94,000	83,435	(10,565)
Interest revenue	-	4,306	4,306
Application fees	5,500	3,250	(2,250)
Land sales	325,000	103,200	(221,800)
Miscellaneous revenues	<u>6,000</u>	<u>3,194</u>	<u>(2,806)</u>
Total revenues	<u>2,085,926</u>	<u>590,747</u>	<u>(1,495,179)</u>
Operating expenses			
Personnel	280,927	242,176	38,751
Payroll taxes and benefits	80,430	68,468	11,962
Office expense	13,650	10,457	3,193
Professional services	17,700	27,354	(9,654)
Maintenance and repairs	20,000	15,031	4,969
Motor pool	9,100	7,513	1,587
Operation expense	125,630	111,436	14,194
Debt service	21,332	14,131	7,201
Capital outlay	<u>1,621,390</u>	<u>105,203</u>	<u>1,516,187</u>
Total operating expenses	<u>2,190,159</u>	<u>601,769</u>	<u>1,588,390</u>
Excess (deficiency) of revenues over expenses	\$ <u>(104,233)</u>	\$ <u>(11,022)</u>	\$ <u>93,211</u>

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

Cash flows from operating activities	
Cash received from customers	\$ 297,890
Cash payments to employees for services	(242,176)
Cash payments to suppliers for goods/services	(196,517)
Land sales	103,200
Other nonoperating revenues	89,879
Net cash provided (used) by operating activities	<u>52,276</u>
Cash flows from capital and related financing activities	
Acquisition of capital assets	(105,203)
Principal paid on capital leases	(269)
Interest paid on capital leases	(184)
Proceeds from notes payable	32,000
Principal paid on notes payable	(5,000)
Interest paid on notes payable	(1,947)
Capital grants received	<u>22,443</u>
Net cash provided (used) for capital and related financing activities	<u>(58,160)</u>
Cash flows from investing activities	
Interest	<u>4,306</u>
Net cash provided by investing activities	<u>4,306</u>
Net increase (decrease) in cash and cash equivalents	(1,578)
Cash and cash equivalents at beginning of year	<u>115,159</u>
Cash and cash equivalents at end of year	\$ <u>113,581</u>

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating income (loss)	\$ (455,960)
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation and amortization	294,940
Land sales	103,200
Other nonoperating revenues	89,879
(Increase) decrease in operating assets	
Accounts receivable	(23,525)
Increase (decrease) in operating liabilities	
Accounts payable	<u>43,742</u>
Net cash provided (used) by operating activities	\$ <u>52,276</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

During the year ended June 30, 1998, the Authority entered into a capital lease agreement for a new copier with a principal amount of \$7,872.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Kingman Airport Authority, Inc. was incorporated in the State of Arizona in July 1992, as a nonprofit corporation. The Authority operates, maintains, and manages the Kingman Airport and Industrial Park for the City of Kingman. The Authority is administered by the board of directors who are elected by the membership of the Authority.

The Kingman Airport Authority, Inc. was formed by transferring the assets and liabilities of the Mohave County Airport Authority, Inc., which related to the Kingman Airport and Industrial Park, to the Kingman Airport Authority, Inc. The Authority leases the real property, on which the airport and industrial park is located, from the City of Kingman under a long term lease. Primary sources of funding for the authority are rents from subleasing real property, proceeds from the sale of real property located in the Kingman Airport Industrial Park, and grants from other governmental units. Functions financed by the Authority include management, maintenance, and development of the Kingman Airport and the Kingman Airport Industrial Park. The Authority is considered to be a political subdivision of the State of Arizona, Mohave County and the City of Kingman with the responsibility of carrying out the function of airport management.

The financial statements of the Kingman Airport Authority, Inc. (Authority) conform to generally accepted accounting principles as applicable to governmental units. The more significant of the Authority's accounting policies are described below.

Reporting Entity - In evaluating how to define the Authority, for financial reporting purposes, management has identified no potential component units. The decision to include a potential component unit in the reporting entity would have been made by applying criteria set forth in generally accepted accounting principles. Generally, component units are legally separate organizations for which the elected officials of the primary government (i.e., the Authority) are financially accountable. The primary government is financially accountable for a potential component unit if it: appoints a voting majority of the potential component unit's governing body; and, either is able to impose its will on the potential component unit or there is a possibility of the potential component unit to provide specific financial benefits to, or impose specific financial burdens on the primary government. In addition, a primary government may be financially accountable for a potential component unit even though the potential component unit may have a separately elected governing board, a board appointed by another government, or a jointly appointed board if the potential component unit is fiscally dependent on the primary government (e.g., the primary government must approve the potential component unit's budget, tax rates, etc.). Because no potential component units were identified in defining the Authority's reporting entity, none have been included in the Authority's reporting entity.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Fund Accounting - The accounts of the Authority are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into generic fund types and broad categories as follows:

Proprietary Fund

Enterprise Fund - The Enterprise Fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Measurement Focus - The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Proprietary Funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with the activity are included on their balance sheets. The measurement focus is upon the determination of net income, financial position and changes in financial position.

Basis of Accounting - Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

Proprietary Funds are accounted for using the accrual basis of accounting. The Authority applies all applicable FASB pronouncements issued on or before November 30, 1989, unless they conflict with GASB pronouncements. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. Interest on bonds, proceeds of which are used in financing the construction of certain assets, is capitalized during the construction period net of interest on the investment of unexpended bond proceeds.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concl'd)

Budgetary Accounting - The Authority adopts an annual nonappropriated budget as a management control device. The budget is prepared on the modified accrual basis, which is a different basis of accounting than is used to present the financial statements. (See note 11 for reconciliation.)

Cash Equivalents - Cash equivalents consist of short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash; and (b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investment with original maturities of three months or less meet this definition.

Property, Plant and Equipment - Property, plant and equipment acquired for proprietary funds is capitalized in the respective funds to which it applies. Property, plant and equipment is recorded at historical cost. Donated fixed assets are valued at their estimated fair market value on the date donated. Depreciation of property, plant and equipment is computed using the straight-line method.

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest capitalized was calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

NOTE 2 - DEFICIT RETAINED EARNINGS

A deficit retained earnings of \$222,028 existed in the Enterprise Fund at June 30, 1998.

NOTE 3 - CASH AND INVESTMENTS

State statutes authorize the Authority to invest in obligations of the U.S. Treasury and U.S. agencies, certificates of deposit in eligible depositories, repurchase agreements, obligations of the State of Arizona or any of its counties or incorporated cities, towns or duly organized school districts, improvement districts in this state and the State Treasurer's Local Government Investment Pool.

The Authority's deposits as of June 30, 1998, were entirely insured or collateralized with securities held by the Authority's custodial bank in the Authority's name.

The Authority's investments consisted of amounts deposited in interest bearing bank accounts.

NOTE 4 - PROPRIETARY FUND FIXED ASSETS

The following is a summary of proprietary fund fixed assets at June 30, 1998:

Land and improvements	
Airport	\$ 5,244,258
Industrial park	1,858,440
Buildings and improvements	
Airport	735,230
Industrial park	106,197
Furniture, machinery and equipment	121,950
Less: accumulated depreciation	<u>(2,281,507)</u>
Net fixed assets	<u>\$ 5,784,568</u>

The following estimated useful lives are used to compute depreciation:

Land and improvements	10-30 years
Buildings and improvements	7-30 years
Furniture, machinery and equipment	3-8 years

NOTE 5 - INTANGIBLE ASSETS

The following is a summary of intangible assets recorded in the Enterprise Fund which consist of site plans and a promotional video and are being amortized over periods from 7 to 15 years on a straight-line basis:

Intangible assets	\$ 76,734
Less: accumulated amortization	<u>(35,580)</u>
Net intangible assets	<u>\$ 41,154</u>

NOTE 6 - LINE OF CREDIT PAYABLE

The Authority has a line of credit with a local financial institution to provide short-term cash flow up to \$150,000. There was no balance outstanding at June 30, 1998.

NOTE 7 - NOTES PAYABLE

The Authority entered into a note payable during the fiscal year with a variable interest rate. Notes payable at June 30, 1998, consisted of the note presented below. Principal and interest requirements at June 30, 1998, were as follows:

<u>Description</u>	<u>Interest Rates(%)</u>	<u>Maturity</u>	<u>Outstanding Principal July 1, 1997</u>	<u>Issues</u>	<u>Retirements</u>	<u>Outstanding Principal June 30, 1998</u>
Bank Loan	9.5	9/28/00	<u>\$ -0-</u>	<u>\$ 32,000</u>	<u>\$ (5,000)</u>	<u>\$ 27,000</u>

The future notes payable that follow include \$2,994 of interest calculated at the initial interest rate of 9.50%.

Year ended June 30,

1999	\$ 14,043
2000	12,903
2001	<u>3,048</u>
	<u>\$ 29,994</u>

NOTE 8 - OBLIGATIONS UNDER CAPITAL LEASES

The Authority has acquired a copier under the provisions of a long-term lease agreement classified as a capital lease. Accordingly, the principal amount of the asset, totaling \$7,872, is capitalized in the Enterprise Fund. The lease provides for a bargain purchase option.

A summary of the future minimum lease payments follows.

Year ended June 30,

1999	\$ 3,099
2000	3,099
2001	3,099
2002	<u>1,033</u>
	10,330
Less interest	<u>(2,727)</u>
Total	<u>\$ 7,603</u>

NOTE 8 - OBLIGATIONS UNDER CAPITAL LEASES (Concl'd)

A summary of the changes in capital lease obligations resulting from purchases of items capitalized in the Enterprise Fund follows.

<u>Assets Acquired</u>	<u>Balance July 1, 1997</u>	<u>Addition</u>	<u>Reduction</u>	<u>Balance June 30, 1998</u>
Equipment	<u>\$ -0-</u>	<u>\$ 7,872</u>	<u>\$ (269)</u>	<u>\$ 7,603</u>

NOTE 9 - CONTRIBUTED CAPITAL

Contributed capital increased by the following amounts:

Capital grants received	\$ 71,947
Contributed capital, July 1, 1997	<u>6,057,821</u>
	<u>\$ 6,129,768</u>

NOTE 10 - LEASE REVENUES

As discussed in Note 1, the Authority subleases, under operating leases, certain property and improvements.

The operating leases have varying terms ranging from a month-to-month basis to twenty-five years. Most leases extending over a one year period contain a rent adjustment based on the consumer price index. Some leases contain an option to renew for a similar term.

Minimum future rental to be received on non-cancelable leases as of June 30, 1998, for each of the next five years and in the aggregate are:

Year ended June 30,

1999	\$ 25,250
2000	16,825
2001	14,700
2002	14,700
2003	14,700
Thereafter	<u>116,683</u>

Total minimum future rentals \$ 202,858

NOTE 11 - BUDGETARY BASIS OF ACCOUNTING

The adopted budget of the Enterprise Fund was prepared on the modified accrual basis. Consequently, the following adjustments are necessary to reconcile budgetary to GAAP basis.

	<u>Enterprise Fund</u>	
	<u>Total Operating Revenues</u>	<u>Total Operating Expenses</u>
Combined Statement of Revenues, Expenses and Changes in Retained Earnings	\$ 321,415	\$ 777,375
Nonoperating revenues and expenses	197,385	2,131
Adjustments to present data on the budgetary basis - additions	71,947	117,203
subtractions	<u>-0-</u>	<u>(294,940)</u>
Combined Statement of Revenues and Expenses - Budget and Actual - (Budgetary Basis)	<u>\$ 590,747</u>	<u>\$ 601,769</u>

NOTE 12 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Authority carries commercial insurance. The Authority is insured by Arizona State Workers Compensation Insurance Fund for potential job-related accidents.

NOTE 13 - DEFINED CONTRIBUTION PENSION PLAN

During the year ended June 30, 1998, the Authority terminated the defined contribution pension plan and distributed the appropriate balances to its employees.

NOTE 14 - FAA COMMITMENT FOR FUTURE IMPROVEMENTS

The Authority is obligated by the Federal Aviation Administration to invest an amount equal to the proceeds of land sales at the Kingman Industrial Park in improvements to and operations of the Kingman Airport within five years from the date of the sale. The amount obligated to be spent for airport improvements and operations at June 30, 1998, is \$287,110. The Authority complied with all regulations regarding its sale of land at the Kingman Airport and Industrial Park during the 1997-98 fiscal year.

Changes in the commitment for future improvements during the year ended June 30, 1998, were as follows:

Balance, beginning of year	\$ 200,697
Add: land sales during year	103,200
Deduct: expenses at Kingman Airport	<u>(16,787)</u>
	<u>\$ 287,110</u>

SUPPLEMENTARY SCHEDULE

SCHEDULE OF NET INCOME
YEAR ENDED JUNE 30, 1998

	Airport	Industrial Park	Total
Operating revenues			
Leases	\$ <u>270,462</u>	\$ <u>50,953</u>	\$ <u>321,415</u>
Total operating revenues	<u>270,462</u>	<u>50,953</u>	<u>321,415</u>
Operating expenses			
Personnel	118,161	124,015	242,176
Payroll taxes and benefits	30,254	38,214	68,468
Office expense	4,752	5,705	10,457
Professional services	22,364	4,990	27,354
Maintenance and repairs	9,523	5,508	15,031
Motor pool	3,757	3,756	7,513
Operation expense	53,340	58,096	111,436
Depreciation	218,457	72,367	290,824
Amortization	<u>4,116</u>	<u>-</u>	<u>4,116</u>
Total operating expenses	<u>464,724</u>	<u>312,651</u>	<u>777,375</u>
Operating income (loss)	<u>(194,262)</u>	<u>(261,698)</u>	<u>(455,960)</u>
Nonoperating revenues (expenses)			
Contributions and donations	-	83,435	83,435
Interest revenue	830	3,476	4,306
Application fees	250	3,000	3,250
Land sales	-	103,200	103,200
Miscellaneous revenues	705	2,489	3,194
Interest expense	<u>(2,131)</u>	<u>-</u>	<u>(2,131)</u>
Total nonoperating revenues (expenses)	<u>(346)</u>	<u>195,600</u>	<u>195,254</u>
Net income (loss)	\$ <u>(194,608)</u>	\$ <u>(66,098)</u>	\$ <u>(260,706)</u>